

artnet AG

Quarterly Interim Statement
for the Third Quarter of 2019

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General Information and Business Activities

Artnet AG is a publicly traded corporation headquartered in Berlin, Germany. Artnet AG was incorporated under the laws of Germany in 1998. The address of its registered office is Oranienstraße 164, 10969 Berlin, Germany.

Artnet AG holds 100% of the shares in Artnet Worldwide Corporation (“Artnet Corp.,” collectively the “Artnet Group”), which is located in New York, NY, USA. Artnet Corp. has two wholly owned subsidiaries, Artnet UK Ltd. and Jay Art GmbH, which is in liquidation as of January 30, 2018. The Artnet Group provides collectors, galleries, publishers, auction houses, and art enthusiasts with a comprehensive suite of art market products, bringing more transparency and accessibility to the art world. The Price Database contains more than 13 million auction records, providing a resource for in-depth price research and art valuation. The Gallery Network is a platform connecting leading galleries with collectors worldwide by showcasing member galleries’ inventory and programming. Artnet Auctions, the first online auction platform dedicated to fine art, allows for immediate transactions between buyers and sellers. Artnet News, a 24-hour newswire, informs users about the events,

trends, and people shaping the global art market. Artnet generates its revenue and incurs its expenses primarily in US dollars.

Economic Development of the Group

The global economy is in a synchronized slowdown. The International Monetary Fund keeps downgrading its outlook and now expects a global economic expansion of only 3% for 2019, the slowest pace since the global financial crisis. The ongoing trade conflict between the United States and China, the two largest markets for art auctions, has adverse effects on the economic growth of the two countries. In the United Kingdom, the third-largest art market in the world, uncertainty related to the country’s exit from the European Union continues to soften growth.

The typically volatile global market for art auctions declined in the first nine months of 2019. According to the Artnet Price Database, total auction sales value for fine art fell by 15% to 7.8 billion USD year-over-year.

Despite the market slowdown, Artnet’s total revenue grew by 4% or 631k USD to 16.0 million USD in the first nine months of 2019, as compared to 2018. In the third quarter of 2019, total revenue

increased by 9% or 412k USD to 5.1 million USD, compared to the previous year. The revenue increase in the third quarter was driven by strong growth in Advertising and Auctions revenues. Galleries revenue recovered year-over-year in the third quarter, while Price Database revenue grew slightly. Web traffic was up by 18% across all Artnet domains.

Price Database revenue remained steady at 5.8 million USD in the first nine months of the year after last year's record. New referral incentives within the organization as well as new marketing and sales initiatives support subscriber and revenue growth. In the third quarter, revenue growth picked up slightly by 1% year-over-year, despite the general slowdown of the auctions market during the summer months. The number of auction results in the Price Database exceeded 13 million in the third quarter, strengthening the analytical capabilities of Artnet. The unique data quality of the Price Database was highlighted with another edition of the *Artnet Intelligence Report*. The edition, entitled *Welcome to the Age of the Art Industry (The Art World is Over)*, was published in September. The bi-annual *Intelligence Reports* offer comprehensive art market analysis and are created by art historians at the Price Database in collaboration with journalists at Artnet News. The joint effort underscores Artnet's authority as the leading provider of data analytics for the fine art market. It is only the beginning of many more initiatives and product development efforts to highlight data on Artnet News.

Revenue for the Gallery Network decreased by 5% to 3.8 million USD in the first nine months of the year due to a loss of members in a challenging market. Smaller and mid-sized galleries, a critical customer base for Artnet, continue to struggle with high operating costs. In the third quarter, revenue grew 3% year-over-year, partly due to an increase in Auction House Partnerships. Cancellations have been historically low due to targeted outreach and increased retention efforts by the client services team. Continuous product innovations will make it easier for gallery members to manage and showcase their inventory to a global audience. These product enhancements, in conjunction with new marketing initiatives, like features on Artnet News, should drive a further recovery of the segment.

Advertising revenue increased by 25% to 3.6 million USD in the

first nine months of the year, driven by growing demand for ad space on Artnet News. In the third quarter, revenue grew by 30%. Artnet News contributed 74% to overall ad revenue. With an editorial focus on quality journalism and original content, Artnet News is solidifying its reputation as the leading source for exclusive and in-depth information about the art world and as a result, it is widely quoted and referenced by other mainstream outlets. Growing web traffic makes Artnet News a sought-after advertising platform, in particular for luxury advertisers such as Cartier and Tiffany & Co. but also for art-related businesses like auction houses. The number of unique users on News increased by 19%, leading to a strong overall increase in traffic of 18% across all Artnet domains during the first nine months of 2019, as compared to last year.

Fee-based revenue for Artnet Auctions increased by 4% to 2.9 million USD in the first nine months of 2019 as compared to 2018. In the third quarter, revenue grew by 13% due to strong performing sales and a new seller's commission structure. While significantly reducing personnel costs and increasing profitability over the first nine months, Auctions strategically focuses on offering high-quality artworks to raise the average lot price and the reputation of the online platform, turning down consignments if necessary. Artnet is confident that this quality initiative will further lead to higher sell-through rates, greater efficiency, and growing revenue. The average price of lots sold increased by 14% to 14,000 USD in the first nine months of 2019, as compared to the previous year. The highest-selling lot in the third quarter was Josef Albers' *Study for Homage to the Square: Yellow Climate* (1961), which sold for 220,000 USD (hammer price), exceeding its low estimate by 70,000 USD. The painting by the German-American artist was part of the *20th-Century Art* sale in September, which offered 71 lots. The single artist sale *Out of the Shadows: The Art of Richard Hambleton* performed strongly as well. The top lot for the late street art pioneer was *Untitled (Jumping Shadow)*, 1982-84, and sold for 85,000 USD.

Gross profit for the first nine months of 2019 increased by 12% or 1.1 million USD to 10.2 million USD over the previous year (2018: 9.1 million USD). This increase mainly resulted from the increase in revenue as well as lower costs of sales. In particular, costs were reduced at Artnet Auctions and in network administration. Operating expenses increased by 7% or 639k USD to 9.8 million USD in the first

nine months of the year, mainly due to higher marketing expenses and investment in our telecommunications, such as configuration and operation of computer and communication systems. Product development expenses in the first nine months decreased by 16% to 1.4 million USD, as changes were made to the development team. Additional investments were partially capitalized. As a result of the increase in revenue and reduction in the cost of sales, net profit for the first nine months of 2019 improved significantly and amounted to 314k USD as compared to -120k USD in 2018.

Development of Segments

Management closely monitors and controls the individual business segments based on the Contribution Margin II (revenue minus direct and indirect variable costs), a metric to determine the profitability of each segment. The Contribution Margin II for the Price Database, Artnet's most profitable segment, decreased 5.6% to 3.5 million USD in the first nine months of 2019 as compared to 2018 mostly due to the stagnating revenue growth and an increase in expenses for marketing and product development. The Contribution Margin II for Galleries, Artnet's second-largest revenue source, decreased by 4.2% to 2.4 million USD during the same period. The slight drop in profitability was primarily a result of the revenue decline as well as higher expenses for marketing and product development. Artnet Auctions generated a higher Contribution Margin II of 282k USD (2018: -270k USD), mainly due to lower personnel expenses. The Contribution Margin II for Artnet News has improved to -475k USD (2018: -790k USD) due to the increase in revenue.

Financial Status

The financial status of the Group has not changed since the publication of the 2018 Annual Report. The Group's operating cash flow remains positive and has increased in the first nine months as compared to last year due to the increase in net profit.

Opportunities and Risks

Since the 2018 Annual Report was published on March 22, 2019, no significant events occurred that necessitate a reassessment of risks and opportunities for the Artnet Group. A detailed overview of risks and opportunities can be found in the 2018 Annual Report.

The Company is upgrading its technological infrastructure with the project FALCON, which will make Artnet much more agile, faster, and efficient upon its completion. The project is the largest undertaking in the Company's history. By investing in state-of-the-art infrastructure, Artnet will be able to quickly adapt to technological changes, generate economies of scale, and launch new products much more efficiently. Project FALCON continues to be a priority.

Outlook

As stated in the Outlook published in the 2018 Annual Report, Management expects revenue to increase to a total of 23.0 million – 24.0 million USD (20.2 million – 20.9 million EUR at an estimated exchange rate of 1.15 EUR/USD) in 2019, along with a moderate increase in expenses. For income from operations, Management expects an increase in a range of 1.0 million – 1.5 million USD (0.9 million – 1.3 million EUR). Overall, Management does not alter its forecast for the development of the business in 2019.

Berlin, November 8, 2019



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CEO, Artnet AG

Artnet AG

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Investor Relations

You can find information for investors and the annual financial statements at artnet.com/investor-relations.

If you have further queries, please send an email to ir@artnet.com, or send your inquiry by mail to one of our offices.

German Securities Code Number

The common stock of Artnet AG is traded on the Prime Standard of the Frankfurt Stock Exchange under the symbol "ART." You can find notices of relevant company developments at artnet.com/investor-relations.

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